FINANCIAL OPERATIONS OF OHIO FARMER OWNED ELEVATORS DURING THE FISCAL YEAR 1942-43

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Mimeograph Bulletin No. 169

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Foreword

In the fall of 1929, the Department of Rural Economics of Ohio State University issued a bulletin summarizing the fiscal operations of 119 Ohio farmer owned elevator companies for the preceding fiscal year. Each year since that has been issued a bulletin summarizing the operations of 140-151 such companies for the preceding year. If the bulletin were to cover the data from the 60 percent of these companies which use the calendar year as a fiscal year, it should be assembled and issued each spring. But many companies use the end of January, February, April, and still more of them May or June as the end of the fiscal year; we must take the data for whatever happens to be their fiscal year. Hence it is not until early August that our data are all in hand and our work of analysis can begin. The reader should recognize that the data here presented do not all fall in any 12 month period.

The tables given below, in addition to comparative data from preceding years, are based on the following:

1. The main balance sheet and income and expense items from 142 companies, operating 198 plants.

2. Detailed analysis of expense items from 73 companies.

3. Commodity sales and margins from 85 companies.

4. Accounts receivable data from 19 companies.

In view of the influence of volume of business on expense ratios and profits, we have from the beginning divided our companies into groups on the volume basis. In the first ten of these bulletins, we determined the grouping each year on the basis of the volume of business for that year; beginning 1939 we adopted a different method in that we have grouped the companies on the basis of the average volume of each company for the three years 1935-38, and have continued this same grouping throughout the five-year period of which this report covers the fifth year. The dividing lines are as follows, each of the first four groups being composed of companies operating only one plant each.

Group I - Companies under $75,000 in yearly sales volume.
Group II - With volumes from $75,000 to $150,000.
Group III - With volumes from $150,000 to $225,000.
Group IV - With volumes above $225,000.
Group V - All companies operating more than one plant each
28 companies 66 plants.

Chapter I

The General Picture

The past year of 1942-43 has been a year of changes, of unusual regulations, of increased expense, especially in taxes and wages, of difficulty in securing and keeping employes, of impossibility of securing many supplies customers desired, and of necessity of curtailing service to customers. The question then of how did the farmers' elevators of the state fare in the past year becomes unusually significant.

Of the 144 companies, all showed net gains for the year 1942-43 except one company. Deducting this company's loss from the total gains, we have for the 144 a net gain of $1,718,978, or $11,937 per company, the highest in the 15 years of our study -- exceeded, if ever, only in the 1918-20 period. The figures by groups appear in Table I below.

Table I

Gains and Losses by Groups - Farmer Elevators of Ohio 1942-43

Group	No. in Group	Showing Gains No.	Showing Gains Amount	Showing Losses No.	Showing Losses Amount	Net Gain of Group	Net Gain per Company
I	11	10	$ 40,711	1	$3,612	$ 37,099	$ 3,373
II	42	42	291,651			291,651	6,944
III	33	33	382,155			382,155	11,581
IV	30	30	473,258			473,258	15,775
V	28	28	534,815			534,815	19,100
All	144	143	$1,722,590	1	$3,612	$1,718,978	$11,937

A comparison of these data with those of last year shows that every group shared in this increased gain, with groups II and V increasing net gains by less than 20 percent, Group I by 25 percent, Group III by 50 percent and Group IV by 34 percent.

During the ten years 1928-38 the net gain per company ran oftenest between $3,000 and $4,000 with the early 30's far below that (in one year only $635 per company with more than a third of the companies showing net losses for the year); then the period 1934-38 showed much higher gains, with one year of average net gain of $4,608 and one of $9,013. The gain for 1941-42 was $9,306, the highest up to that time.

As will appear in later tables, the larger net gain of this past year was due entirely to increased volume of sales. This increase in dollar volume for the two years was due partly to increased tonnage in both years, and due still more to advancing prices especially this last year. The fact that the audits of different companies do not cover the same fiscal year makes an accurate index out of the question; the utter confusion in prices of some grains this past year makes the establishment of an index still more doubtful. Those offered are our best estimate, and would seem to indicate that about three fourths of the increased dollar volume was due to price rises.

Table II

Figures of Ohio Farmer Elevator Companies
Compared with U.S.D.A. Indices of Farmers' Price,
Selected Years 1929-43

	28-29	30-31	34-35	38-39	41-42	42-43
Farmers' Buying Price (1909-14=100)	153	124	125	122	135	166
Farmers' Selling Price (1909-14=100)	146	87	108	95	130	149
Volume in Thousands of Dollars	170	108	176	169	271	333
Gross Trading Margin (in dollars)	13,077	10,386	15,231	16,284	24,234	28,279
Total Expenses in percent of Sales	7.6	10.9	7.3	9.8	7.1	6.6
Net Profit per Company (in dollars)	2,991	1,143	4,608	3,319	9,306	11,937

We said a year ago: "The drop in expense from 8.9 percent of sales to 7.1 percent does not at first seem possible", and now in face of rapidly rising costs of labor, repairs, taxes, the ratio of total expense has dropped still further to 6.6 percent of sales. The explanation is that in the two years total expense increased by 25 percent while dollar volume increased by 68 percent. This past year's increases were 13 percent and 23 percent respectively.

How does this gain of farmer owned elevators compare with those of business at large?

The net gain of $1,718,978 shows a gain of 21 percent of the net worth of $8,135,142. This is roughly speaking double the average rate of gain of corporations whose securities are carried on the New York Stock Exchange. This comparisons which we have made yearly beginning in 1932, shows as one should expect that the farmers' elevators are a part of the general business picture with the same up or down trend as shown by that picture. The fact that farmers' elevator companies of Ohio have invariably had a net gain ratio to net worth better than that of "Big Business" would seem to show their general soundness and general good management.

It should be noted too that in the larger number of these farmer companies the net earnings when at all considerable, are largely returned to the patrons in a patronage refund.

Chapter II

The Income of the Ohio Farmer Owned Elevators

I. Principal Sources of Income

The two tables below present the general picture, the first giving the totals for the different groups, and the next presenting the same data in averages per company in each group.

"Trading margin" as used in our tables means the gross profit made on the various grains and commodities handled, i.e., selling price less buying price of the goods. Wherever we find "discounts received" given as a separate source of income we have added that to trading margin; likewise wherever we have found "discounts allowed" as an item of expense, we have taken it out of expense and subtracted it from trading margins.

"Other income" includes mainly receipts for trucking or delivery and receipts from central organizations in dividends on stock or patronage. Lesser but still substantial amounts are recoveries of debts written off in earlier years, interest on receivables and investments, and less frequently, rents received. It is likely that trucking receipts are not so high as in the preceding year, but increased patronage dividends and return from investments have more than compensated.

Table III

Total Incomes from each of the Major Sources by Groups for the Ohio Farmer Elevators, 1942-43

Group	No. Companies	Sales	Trading Margin	Grinding Income	Other Income	Total Income
I	11	$ 1,190,473	$ 132,535	$ 25,580	$ 7,520	$ 165,635
II	42	7,656,624	719,292	129,355	50,269	898,916
III	33	9,279,313	875,581	130,667	52,016	1,058,264
IV	30	13,896,891	1,041,881	136,773	46,400	1,225,054
V	28	15,860,249	1,302,849	159,444	68,665	1,530,958
Total	144	$47,[illegible]3,550	$4,072,1[illegible]8	$58[illegible]	$224,870	$4,878,827

This volume of business is $8,800,000 or 25 percent higher than in the preceding year, which showed a volume of $10,000,000 higher than the year preceding it. Groups III and IV made the largest percentage contributions to the increase though Group V contributed its share of the dollar increase.

Gross trading margin, which had advanced in 1941-42 by $757,000 over the preceding year shows a further increase of $582,000. Grinding income increased by $119,000, and "other income" by nearly another $50,000.

The trend of grinding has been upward throughout the 15 years of our study except for the years 1930-35; 1942-43 not only is the highest in our records, but the $119,000 of increase over the preceding year is far the largest increase in anyone year thus far. The totals for the respective years appear below:

1930-31	$342,000	1937-38	$323,500
1931-32	284,000	1938-39	369,300
1932-33	234,000	1939-40	417,100
1933-34	190,000	1940-41	410,103
1934-35	171,000	1941-42	462,687
1935-36	230,000	1942-43	581,819
1936-37	302,600		

The elevator manager or director would think of figures, not in the totals for a group as we present them in Table III, but rather on a per company basis. For a comparison of his company's income with that of the average of companies of about that size, he should select in Table IV below the group having an average volume nearest his own.

Table IV

Major Sources of Incomes of Ohio Farmer Elevators in Averages per Company in each Group, 1942-43

Group	Sales	Trading Margin	Grinding Income	Other Income	Total Income	What % of Total Income is from Trading Margin
I	$108,225	$12,049	$2,325	$ 684	$15,058	80.0
II	182,291	17,126	3,080	1,197	21,403	80.0
III	281,191	26,533	3,960	1,576	32,069	82.7
IV	463,230	34,729	4,559	1,547	40,835	85.0
V	560,437	46,530	5,695	2,452	54,677	85.1
Ave.	$332,525	$28,279	$4,040	$1,561	$33,880	83.5

When one remembers that Group I was made up of companies below $75,000 in volume of business per year during the three years preceding this five-year study, Group II of companies between $75,000 and $150,000 in volume, and Group III between $150,000 and $225,000, the average sales per company as shown in Table IV give a vivid picture of volume growth. The percentage column at the right brings out the fact that the small volume companies give more services in proportion to volume of business than do the larger companies -- a further reason for their higher unit cost of operation.

In comparing Table IV with that of the preceding year, one finds not only the increased income for each group, but the quite unusual fact that every group shows an increase in each of the three kinds of income. In contrast with the preceding year, grinding and miscellaneous income have increased more proportionately than has the margin on goods handled.

2. Comparison with earlier years.

Table V presents those totals for the past two and two earlier years. The number of companies varies slightly but fully 140 of the companies are identical through the years presented.

Table V

Income of Farmer Owned Elevators for several of the years 1932-43 as Shown by the Totals for the Whole Number in each Year's Data

	1932-33	1937-38	1940-41	1942-43
No. Companies	146	149	146	144
Sales	$12,282,453	$30,990,376	$28,693,685	$47,883,550
Trading Margin	1,372,047	2,454,088	2,732,753	4,072,138
Grinding	234,206	323,515	410,103	581,819
Other Income	105,245	132,912	161,221	224,870
Total Income	$ 1,711,498	$ 2,910,515	$ 3,304,077	$ 4,878,827

One notes that in 1932-33 the margin of gross profit was more than 11 percent of sales, while in recent years it has been below 10 percent -- this last year only 8.5 percent.

3. Margins on the various commodities

With margins on goods handled constituting such an important part of total income, it becomes equally important to know what the various commodities contribute to this total margin and what is the percent of margin on each. Table VI on the next page is designed to answer this question.

In earlier years we based this Table VI on data from 30 to 50 companies, but found they were not always typical of the whole group. More recently we have used a larger sample. The 85 companies in Table VI should present a fair picture of the whole 144; that they do is evidenced by the fact that whereas the 144 companies show a gross trading margin of 8.5 percent, these 85 show a margin of 8.46 percent.

Note that in any of these tables, the margin ratio may be read either as percent of sales or as cents per dollar of sales. The column marked "No." indicates the number of audits giving data on each respective commodity.

Any such table must be examined with considerable allowance for variation. The share which each commodity takes in volume and contributes in margins varies with every company; it varies between any two sections of the state, especially between eastern and western Ohio; it varies with different years, as the company which ships 10 cars of wheat one year may ship 30 cars the next; it varies with weather conditions and resulting quality of grain.

Among further comments to be made are these:

a. Many companies do not in their records separate all those commodities from general merchandise; hence the $2,000,000 of general merchandise must be recognized as including for some companies feed or seed, and for others, fence, hardware, fertilizer, or other merchandise items.

b. We find $13,700,000 of grain contributing $792,000 of gross margins, while $11,650,000 of farm supplies, an amount some 15 percent less, contributed $1,772,000 of gross margins, or about 2¼ times as much gross margin as did grain.

c. Furthermore, the average margin received on grains has varied as follows in successive years -.3¢, 5.8¢, 7.2¢, 5.1¢, 5.4¢, and now 5.8¢ per dollar of sales, an average variation in each case of 30 percent from the preceding year. The series of similar margins on farm supplies are 14.6¢, 14.2¢, 14.8¢, 15.0¢, and now 15.2¢ per dollar of sales, an average variation between respective yearly margins of 2 percent, with only 7.0 percent difference between the lowest average and the highest -- all of which brings out the greater speculative element in grain handling.

d. Oats and corn show higher margin than wheat or beans because they enter so largely into local sales, in which case they carry a merchandising margin.

e. Livestock margins slumped from the 2 cents per dollar of sales of last year to less than 1.0 cent.

Table VI
Commodity Sales and Trading Margin in Farmers' Elevators as shown by Data from 85 Companies

Commodity	1942-43 No.	1942-43 Sales	1942-43 Margin	1942-43 Percent of Margin	Margins in Preceding Years 1941-42	1938-9	1933-4
Wheat	82	$ 5,930,814	$ 248,693	4.1	4.1	4.2	5.7
Corn	74	5,[illegible]73,578	414,171	6.9	6.9	6.8	[illegible].9
Oats	71	1,667,980	119,096	7.1	8.3	12.5	11.6
Other Grains	18	194,437	10,428	5.4	6.6	5.2	26.3
All Grains		$13,766,809	$ 792,388	5.8	5.4	5.8	7.4
Soybeans	67	5,464,344	146,700	2.6	4.6	6.9	
Hay and Straw	12	68,192	7,679	11.2	9.8	19.3	12.1
Livestock	9	1,283,012	11,029	.8	2.2	1.3	1.0
Wool	16	80,157	2,503	3.1	4.4	8.3	
Total Sales of Farm Products		$20,662,514	$ 960,299	4.6	5.2	5.5	
Flour and Feed	57	3,499,803	454,151	13.0	15.0	13.8	12.5
Seed	64	836,809	128,730	15.3	13.5	10.6	13.0
Fertilizer	54	707,248	88,961	12.6	12.3	13.2	12.5
Coal	72	2,108,470	377,200	17.8	16.6	17.6	18.8
Bldg. Materials	25	159,708	31,873	20.0	15.4	17.1	25.5
Farm Machinery	9	239,573	45,630	19.0	14.6	15.9	22.9
Hardware	22	516,776	94,755	18.3	13.1	19.3	
Twine	28	36,747	4,510	12.3	11.4	10.2	11.6
Fence and Posts	33	121,795	24,169	19.8	14.1	12.1	12.1
Gas and Oil	25	454,404	59,958	13.1	16.5	11.2	16.5
Lumber	4	442,900	80,859	18.2	15.2	19.4	
Salt	15	16,222	2,470	15.2	15.7		
Gen. Merchandise	71	2,509,445	379,628	15.1	15.3	14.3	15.0
Total Sales of Farm Supplies		$11,649,900	$1,772,894	15.2	15.0	14.2	15.0
Grand Total	85	$32,312,414	$2,733,193	8.46	8.9	9.7	10.6

Still another angle from which to view gross margins is presented in Table VII, which gives a comparison of margins received by the different groups, and then compares these with those of earlier years. This table indicates the extent to which the higher expense ratio of the lower volume companies forces them to take higher margins; we find the margins declining with increasing volume through the first four groups.

Table VII
Trading Margins of 1942-43
Compared with those of Earlier Years

Group	Sales	1942-43 Trading Margin	Percent of Margin	Percent of Margin, former years 1941-2	1940-1	1937-8	1932-3	1928-9
I	$ 1,190,473	$ 132,535	11.1	11.9	11.7	9.2	12.4	9.5
II	7,656,624	719,292	9.4	9.9	10.8	8.2	11.6	9.7
III	9,279,313	875,581	9.4	9.6	9.8	7.7	11.0	9.1
IV	13,896,891	1,041,881	7.5	7.8	8.2	7.3	10.5	7.2
V	15,860,249	1,302,849	8.2	8.8	9.6	8.2	10.2	8.2
Totals & Averages	$47,883,550	$4,072,138	8.5	8.9	9.5	7.9	11.2	8.7

Group V has the largest volume per company, but each company in this group sells through 2 to 5 plants; the average sales per plant are $240,307 which places them between the averages for Groups II and III; their average margin is considerably below either of those groups.

Margins are by no means entirely in control of a manager. Price fluctuations especially in grain frequently give him little margin, a loss, or an unusual profit; discounts for grade, dockage, etc., constitute another element of uncertainty. Government ceilings and fixed prices as for beans make "confusion worse confounded".

For some time in the late 20's the trend of margins was downward. Then the low prices of the depression years forced a higher margin per dollar of sales. E.g., if a given volume of goods sells one year for $200,000 and two years later at $125,000, no amount of economy can cut costs of operation in that ratio, so margins must be advanced or the company faces a loss.

The low prices of the early 30's were followed by gradually rising prices and higher dollar volumes in the mid 30's; then after a year or two of higher margins, the decline went on from 10.1¢ per dollar of sales in 1939-40, then 9.5¢, then 8.9¢; and this past year 8.5¢ per dollar of sales -- the decline due largely to advancing dollar volumes of business.

In thinking of total income and of net gain one must not overlook the increase in receipts from grinding, patronage and stock dividends received from central organizations, and returns on investments. E.g., grinding receipts of $4,000 per company this past year compare with $1,200 to $2,200 in the mid 30's and "other income" now $1,200 per company in contrast with $600-$700 a few years back.

Chapter III

Expense in Operating Ohio Farmer Owned Elevators

A general picture of the relationship of total expense to gross income is presented in Table VIII in averages per company in each group. The 28 companies in Group V together operate 66 plants, hence the two averages on the plant basis; it happens too that since the original grouping was set up, some of the companies operating only one plant at that time have acquired a second plant.

Table VIII
Income and Expense of Ohio Farmer Elevators 1942-43
Average per Company by Groups

Group	No. in Group	Sales	Gross Income	Total Expense	Net Gain	Ratio*
I	11	$108,225	$15,058	$11,685	$ 3,373	77.6
II	42	182,291	21,403	14,459	6,944	67.6
III	33	281,191	32,069	20,488	11,581	63.9
IV	30	463,230	40,835	25,060	15,775	61.4
V	28	566,437	54,677	35,577	19,100	65.1
Ave. Per Co.	144	$332,525	$33,880	$21,943	$11,937	64.8
Ave. Per Plant	188	254,700	25,951	16,808	9,143	64.8
Ave. Per Plant in Group V	66	240,307	23,196	15,093	8,103	65.1

*The percent of gross income which was required to pay total expenses.

In comparing this table with that of the preceding year for the same companies, one notes --

1. Every group shared in the increase in volume of business.

2. Gross income showed an average increase of $5,200 per company, or about 18 percent.

3. Total expense likewise has increased for every group, with an average per company of not quite $2,600 -- an increase of over 13 percent.

4. Net income showed an increase over the preceding year of $2,631, or about 28 percent, with every group sharing in the increase, the larger volume groups by a higher percentage.

The break up of expense into operating expense as contrasted with interest payments, and deductions of income to cover incollectible accounts and depreciation of fixed assets is shown by groups in Table IX.

In comparing this table with that of last year we find the average interest expense $62 lower this year than last, -- a reduction to which every group contributed except Group I. Depreciation reserves were higher this past year by $41 per company. Bad Debt allowances were down to $409 per company as compared with $511 for the year before -- a factor about which more will be said when we come to the discussion of receivables (Chapter V).

Table IX
Major Expense Items--Farmers' Elevator Companies 1942-43
Averages for 144 Companies

Group	Sales	Interest	Deprec.	Bad Debts	Operating Expense	Total Expense	Expense Ratios* Oper.	Total
I	$108,225	$228	$ 940	$165	$10,352	$11,685	9.6	10.8
II	182,291	163	1,230	261	12,805	14,459	7.0	7.9
III	281,191	82	1,692	318	18,396	20,488	6.5	7.3
IV	463,230	94	2,026	508	22,352	25,060	4.8	5.4
V	566,437	309	2,713	643	31,912	35,577	5.6	6.3
Av. per Co.	$332,525	$163	$1,768	$409	$19,603	$21,943	5.9	6.6
Av. per Plant	254,700	126	1,354	313	15,015	16,808	5.9	6.6
Av. per Plant in Group V	$240,307	$131	$1,151	$273	$13,538	$15,093	5.6	6.3

*Expense expressed in ~~cents~~ per dollar of sales.

Operating expense increased by $2,709 per company, due mainly to wage increase, though larger power costs and heavier taxes were further contributors. We said a year ago: "A factor which may be expected to loom large in next year's figures is the steady advance in wages. Wages offered by government agencies and war plants cannot be met by farmer elevators, but boards of directors generally do ~~recognize the steadily advancing~~ cost of living and are advancing wages to correspond -- partially at least".

We found for 27 companies on which we happened to have those data for the two years an increase in labor costs ~~from~~ $255,000 in 1941 to $309,000 in 1942. That the trend was continuing was shown by data from 33 companies showing labor costs of $66,300 for January and February, 1942, and $80,795 for the same two months of 1943.

In spite of the increase of $2,586 in total expense, the gain in dollar volume (largely due to the advancing prices) was so great that total expense fell from 7.1 percent of sales to 6.6 percent of sales.

Another picture of expense is found in Table X which shows the percent of the expense dollar due to each of the major items.

Table X
Percentage which each Expense Item is of Total Expense
Data for 1942-43 from 73 Companies

Item	1942-3	1938-9	3 yrs.*	Item	1942-3	1938-9	3 yrs.*
Labor	50.2	50.2	[illegible]	Truck	4.9	5.3	2.8
Power	8.3	7.8	[illegible]	Off. Sup.	1.2	1.0	2.4
Insurance	4.3	4.4	4.9	Rent	0.4	0.5	
Taxes	4.3	5.4	4.7	Interest	0.7	2.0	4.8
Sup. and Rep.	5.1	3.9	3.8	Depreciation	8.0	9.2	11.2
Advertising	1.4	1.4	1.1	Bad Debts	1.6	3.5	2.8
Post. & Tel.	0.9	0.9	1.0	Licenses	0.1	0.2	
Aud. & Legal	0.7	0.8	0.1	All Others	1.9	2.3	1.7

*The years 1929-30, 1930-31, 1931-32.

Among things to note regarding Table X are these:

1. The share going to wages, which stood for years at 49¢ to 50¢ of the dollar, has advanced rapidly in the past few years. The major influences a few years back were wage and hour legislation, increasing service (which adds rapidly to labor costs) and the advancing cost of living. Another factor probably was the increasing net gains of the companies, which many boards shared in some measure with employes, through bonuses or advances in wages. The past 18 months has seen advances due to competition of war industries.

2. Truck expense has been increasing over the years, but fell off this year, due to gas and rubber restrictions, and even difficulty in securing trucks, and the consequent reduction in this service. One should always note that the expenses charged to trucking or delivery, are only rubber, gas, oil, and other cash outlay. The depreciation on the trucks and the labor to operate them are charged to depreciation and labor. Probably the costs of hauling and delivery in the companies which maintain a reasonably complete service constitute 15 to 20 percent of total operating costs.

3. Taxes as shown in our data include real estate, personal property, franchise, and unemployment and social security taxes. The federal income tax, determined after net income has been established, does not appear as a part of expense. Many companies operating as fully cooperative escape this tax; others pay out as patronage dividends the larger part of their net earnings, and are allowed to deduct such dividends from taxable income. In our 1941-42 study we checked 46 companies who had income tax to pay and found such taxes to add 5.7 percent to total expense. Hence one can conclude that the company paying no patronage dividends is spending fully one dime of its expense dollar for support of government.

4. The interest bill continues to decline; minor fluctuations in items like rent, office supplies, audit, are meaningless as they arise partly from the fact that the audit summaries we receive do not always present these items separately, but lump them into general expense.

5. The steady decline in the share taken in the expense dollar by depreciation reserves does not indicate a decline in reserves set up; the reserves set up this year exceeded those of the preceding year. The depreciation reserves for the whole group have averaged $241,000 per year for the past five years as compared with an average of $193,000 for the five years before that.

Chapter IV

The Financial Condition of the Farmers' Elevators of Ohio

In Chapter II we examined the sources and amounts of income of these organizations; then in Chapter III we made from several viewpoints some analysis of the expenses undergone in their operations and the relation of that expense to the earnings of the various units. The question remaining is, What finally is the present condition of these companies as to resources and obligations?

First, a word of explanation. In the early days of these companies the most common par value for the stock was $100, though even then some were issuing $50 and $25 shares. As they reorganized on the cooperative basis, many of them reduced the par value to $25, $20 or $10 per share. For the sake of uniformity in our study, we shall use the term "$100 share" to mean $100 par value of stock, whether that stock be in $100, $20, or $10 or other par value per share.

When we began this series of studies in 1929, $100 of par value of stock of the 119 companies whose data we then secured had a book value of $138. Of the entire number 21 percent had deficits, mostly a hangover from the depression of the early 20's. The period 1930-32 did not help matters much and while our 1935 study found book value per $100 up to $142.66, the number having deficits was still nearly 20 percent.

What has happened in regard to these two measures of the situation is shown in the table below:

	No. of companies having surpluses	No. of companies having deficits	Value of $100 share for whole group
1934-35	123	24	142.66
1935-36	127	23	146.53
1936-37	138	12	164.33
1937-38	134	15	157.14
1938-39	134	13	157.43
1939-40	136	10	165.06
1940-41	136	10	166.11
1941-42	139	5	180.30
1942-43	141	3	187.73

Two comments should be made regarding this book value of $187.73 per $100 of stock ($1.877 for each dollar of stock outstanding).

1. This value is far more conservatively stated than was the $138 of fourteen years ago, for plants have been depreciated -- in many cases to considerably below real value; receivables are stated more conservatively; inventories are more likely to be undervalued than overvalued.

2. The $187.73 is the value at the time of the audit. Many companies did not declare stock and patronage dividends until after the auditors had left; hence, the book value would be lowered by and to the extent such dividends were paid. This fact applies throughout the last column of the table above, though in no case does it affect the numbers in the surplus and deficit columns.

How this surplus and deficit and book value are distributed among the different groups appears in Table XI below.

Table XI
Surplus and Deficit Status of Ohio Farmers' Elevators
by Groups--End of Fiscal Year 1942-43

Group	No. with Surplus: No.	Amount	No. with Deficit: No.	Amount	Net Surplus	Av. Per Company	Values per $100 Share
I	9	$ 95,187	2	$ 9,093	$ 86,094	$ 7,827	$156.58
II	42	670,016			670,016	15,953	170.62
III	33	997,185			997,185	30,218	213.02
IV	30	925,107			925,107	30,837	191.71
V	27	1,134,435	1	11,060	1,123,375	40,120	184.12
Total	141	$3,821,930	3	$20,153	$3,801,777	$26,401	187.73

A comparison with the corresponding data for the preceding year shows that every group has a larger average surplus and an advance in book value. Group I increased surplus by nearly 30 percent and book value by about 10 percent.

And now what are the assets or resources used by the 144 companies in handling the $39,000,000 of business of 1941-42 and the nearly $48,000,000 business of 1942-43?

Table XII answers the question for the 144 as a group.

Table XII
Resources and Liabilities of 144 Farmer Owned Elevators
of Ohio for the two years 1941-42 and 1942-43

Resources	1941-42	1942-43	Liabilities	1941-42	1942-43
Cash and Bank	$ 1,351,833	$ 2,208,130	Notes Payable	$ 507,122	$ 314,236
Receivables	1,881,614	1,614,385	Dividends Payable	437,350	78,347
Inventory	2,773,228	2,696,536	Inc. Tax Payable	59,094	113,466
Net Plant	3,093,412	3,122,498	Other Payables	869,162	694,770
Investments	217,179	349,443	Capital Stock	4,157,774	4,333,365
Other Assets	49,966	55,969	Surplus	3,338,730	3,801,777
	$9,369,232	$10,046,961		$9,369,232	$10,046,961

The reader is entitled to a statement of what is included under these respective items. Under Cash we include till money, bank checking accounts and savings accounts; Receivables includes customer and grain accounts receivable and notes receivable; Inventories includes grain and merchandise on hand, valued at the lower of cost or market; net plant is the value of land, buildings, machinery, office furniture, trucks, less reserves for depreciation; Investments include U. S. bonds, stock in central cooperatives, stock in the Louisville Bank for Cooperatives, and some minor items; other assets are mainly prepaid insurance, sales tax stamps on hand and operating supplies on hand.

On the liability side, Notes payable includes all such notes whether or not secured by mortgage. Dividends payable includes dividends declared in past years and accumulating toward purchase of shares of stock, plus dividends for 1942-43 declared at time of audit, but unpaid at time of audit; one should note that many companies declared dividends after the audit was closed, whose later payment would reduce both cash and receivables, and also surplus.

In comparing the two years represented in this table, we note the following:

1. Cash has increased by $850,000, an increase of 63 percent; two dollars of every nine of resources are in cash.

2. Receivables which a year ago were $150,000 lower than the year before are now reduced another $267,000 -- all the more significant in face of an $18,000,000 increase in volume of business in the two years.

3. Inventory is in dollars slightly lower; when we remember the advance in prices, it is evident that physical inventory is considerably lower than a year earlier -- largely due to the impossibility of securing certain farm supplies.

4. Net plant has been practically constant for three years, which means that the additions to buildings, machinery and trucks have been each year about equalled by the new reserve set up for depreciation ($254,000 in 1942-43).

5. Investments have increased by $130,000 in the past year --largely through purchase of U. S. bonds and through receipt of stock of central cooperatives as patronage dividends. We are satisfied that this figure is materially understated, as we often note in an audit the omission of stock or memberships in central cooperatives, even though both the central cooperatives have surpluses making the stock or membership worth far more than par.

Among the liabilities, we note

1. Reduction of notes payable. Our master table shows that these notes payable are outstanding against 33 of the 144 companies. Also accounts payable are lower.

2. Dividends payable are company liabilities, owed to present or prospective members.

3. Capital stock shows a slight increase, $173,591 and surplus an increase of $460,000.

Total resources or liabilities show an increase of $674,000 over the preceding year.

How the various groups compare in distribution of the various items of resources and liabilities is shown in Tables XIII and XIV, in both cases on the basis not of totals for the group, but of averages per company.

Table XIII
Resources of Ohio Farmer Owned Elevators, 1942-43
in Average per Company in each Group

Group	Cash	Receivables	Inventory	Plant Value	Invest-ments	Other Assets	Total Assets
I	$ 5,757	$ 6,589	$ 6,754	$ 9,001	$ 664	$ 52	$28,817
II	9,198	7,658	13,560	14,524	1,741	194	46,875
III	14,627	9,498	18,076	22,935	1,559	295	66,990
IV	19,977	11,493	20,125	23,855	3,855	863	80,140
V	24,160	20,073	30,516	33,535	3,670	416	112,370
Average	$15,334	$11,211	$18,726	$21,684	$2,427	$389	$69,771

Table XIV
Liabilities of Ohio Farmer Owned Elevators, 1942-43
in Average per Company in each Group

Group	Notes Payable	Dividends Payable	Other Payables	Inc. Tax Reserve	Net Worth	Total Liabilities
I	$3,303	$ 1,413	$2,259	$ 182	$21,660	$28,817
II	1,810	2,445	3,428	650	38,542	46,875
III	1,617	3,617	4,423	521	56,812	66,990
IV	846	8,178	5,668	987	64,461	80,140
V	4,398	10,942	7,499	1,335	88,196	112,370
Average	$2,182	$ 5,482	$4,825	$ 788	$56,494	$ 69,771

A comparison of Table XIII with corresponding data of the year before finds the average company in every group with more cash on hand and with higher investments; receivables in every case are lower. Inventory, plant, and other assets show no material changes, though it is to be remembered that the same inventory in dollars means less actual goods on hand than the year before.

In Table XIV one notes that Notes Payable are materially lower in every group than the year before, that Dividends Payable are higher (i.e., more is set up toward purchases of shares by incoming members); that in every group net worth has risen.

By arranging in the form of a balance sheet the averages in the lower lines of Tables XIII and XIV we get the following as the Balance Sheet of the "Average Ohio Farmer Elevator".

Resources		Percent 42-43	Percent 41-42	Liabilities		Percent 42-43	Percent 41-42
Cash	$15,334	22.0	14.4	Notes Payable	$ 2,182	3.1	5.4
Receivables	11,211	16.1	20.1	Dividends Payable	5,482	7.9	4.7
Inventory	18,726	26.8	29.6	Inc. Tax Payable	788	1.1	.6
Plant	21,684	31.1	33.0	Other Payables	4,825	6.9	9.3
Investments	2,427	3.5	2.4		$13,277	19.0	20.0
Other Assets	389	.5	.5	Cap. St. $30,093			
				Surplus 26,401			
				Net Worth	56,494	81.0	80.0
	$69,771	100.0	100.0		$69,771	100.0	100.0

Chapter V

Miscellaneous

At what points did the changes in net income per company occur?

Net gain 1941-42			$ 9,306
Gross profit on commodities increased	$ 4,045		
Grinding income increased	850		
Other income increased	322		
Total increase in income		$ 5,217	
Expenses			
Interest expense less	- 62		
Bad Debt allowance less	- 102		
Depreciation reserve	+ 41		
Operating expense	+2,709		
Increase in expense		$ 2,586	
Increase in net gain			2,631
Net gain for 1942-43			$11,937

The exact average gain per company was $11,937.35.

Accounts Receivable

The effort made by managements to collect accounts and by many farmers to use increased incomes to pay up obligations has made a marked change (but in our opinion not so much reduction as should have occurred). During 1940-41 receivables had increased by about the same ratio as volume of business. In 1941-42, while 48 companies had suffered increases in receivables, the total had declined by about $1,000 per company in face of a 38 percent increase in volume of business.

This year of 1942-43 the average receivables outstanding per company has declined by more than 14 percent in face of an increased volume of about $62,000 per company, or 23 percent. Averages do not tell the whole story; in spite of every opportunity and reason to cut down receivables, 26 companies, nearly a fifth of the whole number had more on the books than a year earlier, and half as many more had made no material reduction.

The dollars of accounts receivable do not constitute a complete measure nor do the dollars of receivables compared with total volume of business. Of two companies with $200,000 volume each, one may have $160,000 of grain to ship out of the community on which customer accounts receivable do not arise, while the other may have a business of almost entirely local sales. Receivables should be compared with local sales.

Since 1928 we have had the monthly charges to account, the collections and the month end balances in accounts receivable from a number of companies (for the past 10 years, 19 companies). In Table XV we present the average month end balances for these companies for several of the years covered by our data. One notes in every year the rise in receivables February to May or June, the reduction in July and August, the increase with fall fertilizer purchases, and then the gradual payment of bills through October to January.

Table XV
Trend of Month End Balances of Accounts Receivable*

	1929	1933	1936	1939	1941	1942
January	$12,309	$11,676	$10,541	$12,422	$13,256	$10,903
February	12,092	11,947	10,968	12,679	13,387	11,766
March	13,971	12,276	11,737	13,950	14,374	13,576
April	14,908	12,223	13,064	15,081	15,599	15,228
May	15,704	12,435	13,491	16,559	16,300	15,373
June	15,476	12,610	12,656	15,748	15,931	14,345
July	15,493	12,018	10,849	14,761	15,078	12,963
August	14,825	12,374	11,348	14,991	15,268	12,691
September	16,742	12,732	13,301	16,481	16,519	14,253
October	15,919	12,897	13,760	15,720	15,239	13,250
November	15,429	12,612	12,845	14,383	13,649	11,892
December	13,965	11,783	10,929	12,428	11,054	9,781

*Note that in this table the figures represent merely customer accounts while in Tables XI, XII, and XIV "Receivables" include Notes Receivable and Grain Accounts Receivable also.

Another measure is the turnover of receivables, i.e., how long does the average dollar of accounts stay on the books. For example we go to our 19 companies represented in Table XV, and we find a wide divergence. E.g., one company with an average balance outstanding of $8,862 collected $16,517 during the year; a turnover of accounts 1.87 times, or each account more than 6 months on the books. Another was nearly as bad. On the other hand, other companies turned over their accounts respectively every 36 days, 34 days, 30 days, 28 days; the outstanding record was that of Willard; it had an average of $3,324 on the books, with a turnover of 15.6 times yearly, or every 23 days. The whole 19 companies averaged a turnover of 7.2 times yearly or about every 51 days.

Some companies carry no reserve for incollectible accounts, and simply write off each as they decide it is incollectible. This means that they are generally carrying their accounts at more than they will collect from them. Other companies set up each year's reserve for possible losses, charging any account regarded as incollectible to this reserve. The reserves thus set up are normally fairly generous, so that these companies will usually collect from accounts more than the net at which they carry them. Of our 144 companies 106 carried such reserves to an amount of $246,559 against accounts of $1,454,051, or nearly 17 percent.

The Surplus Situation

The average book value of each dollar of stock outstanding is $1.87, which bespeaks a sound position for the group. This sound condition too is well distributed, for of the 144 companies, only 3 have deficits, so that 141 share in the surplus. Fifteen have surpluses exceeding $50,000 each; 38, surpluses between $25,000 and $50,000; and 64 had surpluses below $25,000, but above $10,000. Twenty-four have surpluses below $10,000.

The Problem of the Small Company

The elevator group should give more attention to the problem of the small volume company. It is generally recognized that it has a higher operating expense per dollar of sales than the large, but few recognize how wide the difference is. Table IX in last year's bulletin showed that Group I with volume below $100,000 had expense of 11.2¢ per dollar of sales. A glance at Table IX shows a decline to 10.8¢. But Group III fell to 7.3¢ and Group IV to 5.4¢ -- just half the expense for Group I. This means that Group IV companies on the average could take on each $100 of goods $3.00 less gross profit at the time of purchase and sale and still make $2.40 more net profit.

This disadvantage of the smaller volume company is not alone in greater expense; buying in smaller lots it cannot average as good buying prices nor as low transportation costs per unit.

Some of the larger companies are recognizing this problem, and with it the fact that an area near them lost to the cooperative movement through the sale of a neighboring cooperative is a loss to the bigger neighbor which allowed it to happen. In the past few years several companies have bought out or absorbed by exchange of stock a smaller neighbor. Examples are Delaware's absorption of Radnor, Nevada's of Lemert, Upper Sandusky of McCutchenville, North Baltimore's of Hoytville. This brings up another question, --

The Operation of Several Plants by One Company

In Group V are 28 companies which together operate 66 plants. Has this operation of several plants by one company any advantage? Is it expensive to operate several plants?

As far back as 1934-35 we found 1[illegible] companies operating more than one plant each had total expense of 10¢ per dollar of sales, while plants operated singly had 10.9¢ per dollar of sales. The difference has not usually been so great, but in 1936-37 we had an unusual opportunity for comparison in that the average volume per plant of the first four groups was almost identical with that of the 28 companies operating on the multiple plant basis. Total expense of the first four groups average 6.3¢ per dollar of sales, while Group V averaged 5.8¢ per dollar of sales.

This year's data show that the 117 companies operating one plant each had an expense of 6.75¢ per dollar of sales, while the 28 companies operating together 66 plants had an expense of 6.3¢ per dollar of sales, -- and that in spite of the fact that the groups operating single plants each had $36,000 higher volume per plant than did Group V.

Thus every comparison we have ever been able to make has shown the lesser expense of multiple plant operation. It is interesting to note that several companies have been reaching out to neighboring areas as in Xenia's operations at Jamestown, New Bavaria at Pleasant Bend, Tiffin's three plants in place of one. The outstanding example is Grove City's operations at Galloway, Harrisburg, and Orient, as well as a lumber yard and a hardware store at Grove City.

Why not more companies use some of those huge cash balances in similar widening of their operating areas?